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Senator * or Department*: **BAUCUS**

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(1) Subject*: **Trade**

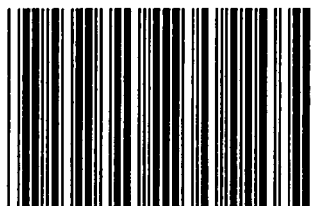
(select subject from controlled vocabulary, if your office has one)

(2) Subject* **Business Coalition for US-China Trade: Most Favored Nation Status**

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BAUCUS

Remarks of Senator Max Baucus
Business Coalition for US-China Trade
May 8, 1996

Good morning, everyone. Thank you, Cal, for that kind introduction. Thank you, everyone, for coming, and for the hard work you have done on China's Most Favored Nation status over the years. You can be proud of what we have achieved so far.

But as we prepare for a sixth year of the MFN debate, some of us remember that famous Yogi Berra saying -- "It's deja vu all over again." We've heard the arguments on both sides already, and our goals over the next decade are a more interesting topic than our goals for the next two months. But we must begin with MFN status, because we can't do much at all unless we avoid disaster in the short term.

THE BASIC FACTS

The Sung Dynasty philosopher Chu Hsi [CHEW SHER], arguing for high academic standards in awarding government offices, said actions are ultimately more important than understanding but without clear understanding actions are pointless or even harmful. Following that common-sense approach, we should understand what MFN is before we start acting or voting on it.

MFN is not a special favor and it does not mean "best country." It once meant giving every a country the same tariff rates everyone else got. Today, in fact, MFN is closer to "Least" than "Most" avored nation.

Only seven countries -- Afghanistan, Cuba,
Cambodia, Laos, North Korea, Vietnam and Yugoslavia
lack MFN status. | And later this morning, the Finance
Committee will vote on a bill to get Cambodia off that
list. | By contrast, 31 countries get tariffs below MFN
through the Caribbean Basin Initiative, the Andean
Trade Preference Act, the NAFTA | and the US-Israel
Free Trade Agreement. | If all goes well at the
Committee, another bill will renew the Generalized
System of Preferences, and bring the total to 151
countries and territories with tariffs below MFN.

CONSEQUENCES OF REVOKING MFN STATUS

So giving China MFN status is nothing special.

Now look at revoking MFN. | It raises tariffs from
Uruguay Round to Smoot-Hawley levels. | That would
bring our average tariff on Chinese goods from 4.6% to
40%. | To choose some of China's largest exports, |
Smoot-Hawley tariffs raise the duty on silk blouses ten-
fold, | from 6.5% to 65%. | On radio-tape players, | 1% to
35%. | On toys and stuffed animals, | zero to 70%.

This would make trade with China impossible. | The
World Bank has predicted that revoking MFN would cut
China's exports to the US by 96%.

That is \$44 billion worth of goods, nearly a third of China's total exports to the world. China's inevitable retaliation would cost us \$14 billion in direct exports, plus a large part of our \$17 billion in exports to Hong Kong.

The consequences would be staggering. China would suffer a humanitarian crisis, as millions of workers in coastal export factories lost their jobs overnight. The damage to Hong Kong would be tremendous. The United States would lose hundreds of thousands of export jobs. Retailers and the millions of people they employ would suffer a massive disruption of toy and apparel imports just as they are buying stocks for the Christmas season.

And although MFN is a trade policy, the malign effect of revoking it would go far beyond trade and jobs. It is hard to see how we could continue working with China in areas of mutual interest. And the consequences in politics and security — from our ability to manage the nuclear aspirations of North Korea, to preventing weapons proliferation in the Middle East, to the UN Security Council and beyond — would be immense.

Revoking MFN, then, would be a destructive act. We should not do it. We should not try a split-the-baby halfway approach, like revoking MFN for state-owned industry or bringing China back to Tokyo Round tariffs.

Nor should we use new conditions to postpone the decision a few months or a year. We should just leave MFN alone.

AMERICA'S GOALS

A broader debate over China policy, in Congress or the Presidential campaign, could be a healthy thing. But it should begin by looking at what we hope to achieve through our foreign policy generally, and where China policy fits into those goals.

The answers are, admittedly, not totally clear -- because we are still debating the questions.

Since the Cold War ended, we have considered
collective security; promotion of democracy and human
rights; pursuit of economic advantage; and now with
the Buchanan campaign, safety through isolation.

The debate will no doubt continue for some time.
But minimally, most of us would agree that we should
aim to promote peace and prosperity. And our
relations with China will inevitably play a large part in
our ability to do that.

CHINA POLICY IN CONTEXT

China is the world's most populous country. It has nuclear weapons and the world's largest army. It is a major industrial contributor to global climate change and pollution of the oceans. And it is the world's fastest-growing major economy. So in the coming decades, China will have significant effect, for good or for ill, on economic, environmental and political developments in Asia and around the world.

If China is hostile -- or, short of outright hostility, refuses to accept standards of behavior most countries recognize, and approaches the world with an angry nationalism -- hopes for peace and prosperity recede.

And as the first half of this century showed, a weak, poor and fragmented China is equally dangerous. It becomes a source of revolution. It sends refugees across the world. And it attracts the greed and aggression of its neighbors, as it did Bolshevik Russia and Imperial Japan.

So we should do what we can to avoid either extreme. That requires patient, continuous engagement. We should work with China wherever possible. Issues like environmental protection and security in Korea show it is often possible. And when we have disputes with China short of open breaches of the peace we should address them seriously but calmly, without threatening the total relationship.

AREAS OF DISPUTE

Since 1989, human rights has probably been the most heated of these disputes. Humanitarian feeling, and the historical experiences which teach us that repressive governments tend to be more belligerent abroad, show that we need a human rights policy. But reviewing the slim results of the past seven years in this area, we should be willing to consider new methods.

The Committee of 100, a group of eminent Chinese-Americans, recently commented that:

"Past U.S. approaches toward advocating human rights in China have been ineffective. (It is time to consider a fresh approach... Encouraging China to follow the rule of law (both domestically and internationally,) and assisting China with the development of its legal institutions will help lay the foundations for a broadening of political rights."

China's Justice Minister, Xiao Yang [SHAO YANG],
made a similar suggestion to me in 1993. (We should continue advocacy for individual victims of abuses ~~the~~
the cases of the dissident Wei Jingsheng [WAY JING SHUNG], the official Bao Tong and the union organizer
Zhou Guoqiang [ZHO GWO CHANG] ~~ZHO~~ are examples.

JOE

But on larger issues, a less heated, longer-term policy concentrating on broader rule of law questions may be a sound idea.

Some security issues also fall into this category.

We need a strong policy, including sanctions if necessary, to deal with weapons proliferation. We need continuous diplomacy, coordinated with Europe, Japan and Russia, to halt nuclear tests. And we need to make sure, as Secretary Perry did in March, that while the Chinese government understands that we follow a one-China policy, it does not get the impression that it can fire missiles and threaten conflict in the Taiwan Strait with impunity.

TRADE POLICY

We also need a serious approach to trade.

Last year we exported \$14 billion in goods and services to China -- slightly above Malaysia and a little bit below Belgium. | We should expect much more from a country of 1.2 billion with the world's third largest economy and 10% annual growth. | We should be exporting twice or three times as much as we do.

And while last year's export growth was good, it was less than what we should expect.

To be exact, last year our exports to China and Hong Kong combined rose \$5.3 billion. By comparison, export growth to the ASEAN countries was \$7.6 billion and to Japan \$14 billion.

Some of this reflects outdated U.S. policies. As the US-China Business Council noted in its report "Balancing US-China Trade by Expanding US Exports to China," we hold ourselves back by restricting Ex-Im Bank, Asian Environmental Partnership, and Trade Development Agency support for American exporters, and banning sale of high-tech products available easily from our competitors. If we use sanctions, they should hit foreign countries and not our own firms and workers.

But these problems are very small compared to
China's trade barriers. USTR's 1996 National Trade
Estimate cites tariffs averaging 35% | Quotas | Import
licenses | Restrictions on trading rights | Unfair,
unscientific agricultural standards | About \$2 billion
worth of piracy in copyright works like films and CDs. |
Subsidies for state-owned export industries. | Forced
technology transfer | And a habit of linking trade to
politics, | especially in high-profile buys of airplanes, | cars
and so forth.

These policies hurt China | as well as us. | This
year's MFN debate is a perfect example.

Wheat farmers are usually among the strongest supporters of MFN status. But at least in Montana, they are losing interest fast, because of China's refusal to end the ban on wheat from the Pacific Northwest.

Likewise, the Chinese often get credit around here for long-term thinking. But to award airplane contracts and auto deals because of political relations is the opposite. It is short-sighted and damaging to China, because it means fewer Americans have a stake in a smooth relationship.

So we have much work to do. We must use our trade laws to enforce agreements on market access and intellectual property.

We should move to sanctions soon if China continues
to drag its feet on our intellectual property agreement.

And we should work hard on China's WTO
application | Our policy, as stated in the 1992 Market
Access MOU, is that:

"The US government will staunchly support
China's achievement of contracting party status to
the GATT | and will work constructively with the
Chinese government and other GATT contracting
parties to reach agreement on an acceptable
"Protocol" and then China's rapid attainment of
contracting party status."

We should keep that promise. But it is not a one-way promise as China sometimes maintains. Our support depends on an acceptable Protocol. And no acceptable Protocol can allow copyright piracy, protectionist agricultural standards and other abusive practices. A good deal may take time to achieve, but it is worth it.

RECOGNIZE MUTUAL INTERESTS

And while a firm approach to disputes is important, we must not let our attention focus solely on the negative. It is no less important to take advantage of our areas of mutual interest.

These include many security questions. Avoiding
nuclear arms races in Korea, South Asia and the
Persian Gulf. Peace in the Taiwan Strait.

Strengthening the peace in Indochina. Maintaining the
prosperity and the rule of law in Hong Kong; and we
should not be afraid to tell them that things like
weakening Hong Kong's Bill of Rights or abolishing the
Legislative Council would damage those mutual
~~Mutual~~ interests. Cooperation on threats to both countries like
drug trafficking and terrorism.

They include humanitarian issues. Preventing
factory fires and mining disasters which take thousands
of lives every year. Promoting adoption of Chinese
orphans.

And they include environmental protection.

Helping China create modern standards of water protection, reduce smog and control greenhouse gases means a better quality of life for Chinese. It means a booming market for American environmental technology firms. And the lessening of a vast potential threat to the world's oceans and atmosphere.

END THE MFN DEBATE

And whether we are talking about these mutual interests, or our disputes, there is really only one way to succeed. That is by staying engaged and remembering our long-term goal of a world a bit more peaceful and more prosperous.

Barring a cataclysmic event that makes
engagement impossible -- an unprovoked attack on
Taiwan, for example -- revoking or conditioning MFN
will not help achieve that goal. Rather the reverse, to
put it mildly And if such an event were to occur, a
policy based on MFN would be far too weak. If we
were to limit our response to economics -- and we
should not -- our better option is a straightforward
embargo.

In fact, there is no situation to which revoking
MFN status would be the appropriate response. And
thus, after six years, it is time to end the debate. It
has become simply an artificial annual crisis at a time
when we have all too many real ones.

So this year, the Administration should show strength and confidence in its basically sound policy. I believe it can fight and win the votes in the House and the Senate. And once that is done, we should move on. Next year, we should bring China out of the Jackson-Vanik Amendment and close the MFN debate for good.

Let me stop there, and now I'll take your questions.